

COVID – 19 PREMIUM REFUNDS, CREDITS, AND REDUCTIONS REPORT
EXPLANATORY MEMORANDUM
ALLSTATE NORTHBROOK INDEMNITY COMPANY

Background

In response to the Covid-19 pandemic, shelter-in-place emergency orders and reduction in driving across the country, Allstate led the insurance industry in initiating refunds to our automobile customers. Allstate contacted the California Department of Insurance (“CDI”) on April 5, 2020 regarding our planned refunds and began a series of conversations surrounding Allstate’s Shelter in Place Payback (“SIPP”). SIPP was originally designed to provide a payback equal to 15% of automobile premiums for the months of March and April. Following conversations with CDI, Allstate began issuing its first payments to customers during the week of April 13. CDI issued a bulletin the same week mandating all admitted carriers in the state issue a payback for auto policies as well as other impacted lines.

Report outline

As requested by the California Department of Insurance, Allstate has provided support in Section I below for lines of insurance specified in Bulletin 2020-3 determined to have no necessary refunds, and Section II for lines of insurance in which Allstate has determined a SIPP is necessary. This Memorandum covers lines written in Allstate Insurance Company.

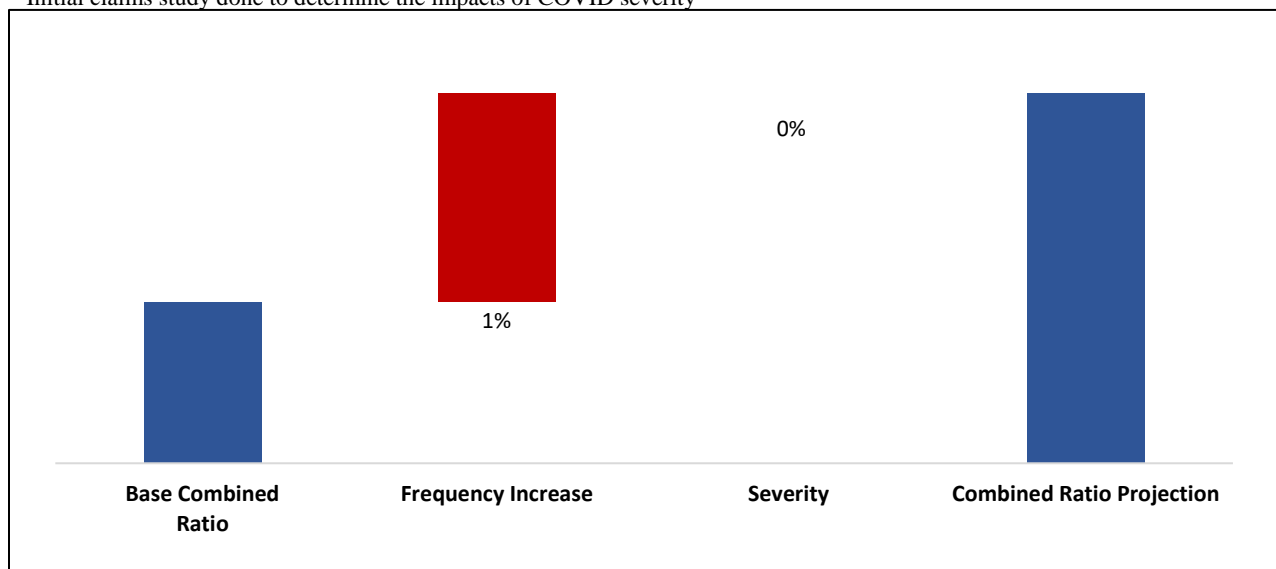
SECTION I: Lines of Insurance Determined to Have No Necessary Refunds

Trailer

As seen in Exhibit 1 below, Allstate's Trailer frequencies increased in March compared to prior year, and saw decreases in April and May. Historical Trailer frequencies tend to be volatile, and given that shelter-in-place has shown no clear pattern in frequencies, Allstate determined refunds were not necessary for the line. However, all Allstate policyholders that insure a Trailer also insure an auto with Allstate. Therefore, while they receive no additional refund on the Trailer premium, the policyholder does receive SIPP on the auto, as described in Section II of this Memorandum.

Exhibit 1: Trailer California SIPP Quantifications		
Metric	Assumption	Combined Ratio
Frequency	Using a 7-year historical average, March through May declines of +48%, -35%, and -8% respectively	+1%
Severity*	Assume severity will be felt for longer than frequency as parts, salvage, and subrogation will be on a lag; Severity offset quantified as 25% of frequency benefit	0%
Total		+1%

* Initial claims study done to determine the impacts of COVID severity



SECTION II: Lines of Insurance Determined Necessitate Refunds

Private Passenger Auto

Allstate responded early, on April 6th, announcing an initial Shelter-in-Place Payback (SIPP) of 15% on Private Passenger Auto for March and April premiums, with an aggregate SIPP of approximately \$57 Million. As the shelter-in-place orders continued, Allstate announced a second 15% SIPP on May 27th to apply to May.

Eligibility & Payment

Eligibility of Allstate customers to receive a SIPP payment was determined by whether you were a current customer at the end of each of the three impacted months, including March, April and May. *Note: A customer must have made at least one premium payment on the policy to be eligible, and we did not include premium for vehicles with suspended liability coverage (since they would not be driven anyway).*

To receive the March SIPP, the customer must have been a current customer as of March 30, 2020. The April payment was dependent upon being a current customer as of April 30, 2020. When refunds were extended to May, the eligibility date likewise moved to May 31, 2020.

The first round of payments were made in March and April by issuing refunds in the same manner the customer paid (this could be via credit card, bank, etc.) For the May payments, we executed all payments by issuing a credit directly to the customers' account. This decision was made to avoid complications that arose due to expired credit cards, people moving, etc. and issue refund amounts more efficiently. Credits will be applied to the customer's account unless the customer terminated the policy or had paid in full. In the latter case, we provided the refund by original payment method.

Timing & Prorating

The March payments were calculated from the start of Governor Newsom's executive order declaring a state of emergency, which was issued on March 4. These payments were made although we did not see driving frequency substantially change until Governor Newsom's subsequent shelter-in-place executive order, which was issued more than two weeks later on March 19.

Allstate payback amounts are **not** made on a pro-rated basis. This decision was informed by a technology complication that would have slowed down our ability to rapidly issue payments to customers. This applies to customers who either cancel **or** for new business coming in. That is, a new customer signing up on April 29th or April 30th would be eligible **immediately** for a SIPP payback. By using a uniform payment date with no proration significantly enhances our ability to implement customer payments quickly and minimizes risk of error.

March and April Payback

- Shelter-in-place drove a significant reduction in driving in March and April.
 - Publicly available data has shown that, in the aftermath of the shelter-in-place orders, national miles driven declined 35-50% and has stayed depressed throughout April and into May.
(https://roadeology.ucdavis.edu/files/content/projects/COVID_CHIPs_Impacts_updated.pdf)

- Other factors that influence overall income include the impacts on claim severities, expanded coverage, and patterns of premium payments.
 - Reports have shown that high speed driving has modestly increased causing accidents resulting in injuries or death to fall more slowly than minor accidents.
([https://roadecology.ucdavis.edu/files/content/projects/COVID CHIPs Impacts updated.pdf](https://roadecology.ucdavis.edu/files/content/projects/COVID_CHIPs_Impacts_updated.pdf))
 - Severity pressure emerged at a higher rate than anticipated and is expected to continue over the next several months. Allstate's recorded position has been adjusted to reflect these impacts.
 - Special Payment Plan enrollments increased dramatically in March and April, resulting in higher bad debt projections.
- Allstate's Verified Mileage program will reclassify customers at renewal to reflect actual reduced mileage in rating. Additional information about Allstate's Verified Mileage program may be found on the next page.
- Reviewing all of the data from March and April, the initial SIPP of 15% continues to be supported by these various factors. Allstate continues to monitor the pandemic impact on these factors and the corresponding income results.

May Payback

- Shelter-in-place order continued to produce a depressed rate of driving and corresponding frequency of accidents in May.
 - In determining the SIPP, Allstate took actual experience of -28% and -60% and -45% for March and April and May respectively.
- Although Allstate started to see a return to normal driving patterns, the impacts on claim severities, expanded coverage, and patterns of premium payments are expected to continue to have an adverse effect on results in May and possibly beyond.
 - The severity pressure that emerged during April is expected to continue over the next several months. Allstate's recorded position has been adjusted to reflect these impacts.
- Allstate's Verified Mileage program will continue to reclassify customers to reflect actual reduced mileage in rating. Additional information about Allstate's Verified Mileage program may be found on the next page.
- Weighing all of these considerations, Allstate determined to provide an additional payback to reflect the performance throughout May. The amount of payback is 15% of monthly premium. Allstate continues to monitor the pandemic impact on these factors.

Allstate's Verified Mileage Program

On the anniversary of an Allstate Private Passenger Standard Auto policy's first effective date, each insured vehicle is classified in a mileage band for rating purposes using a verified mileage program. Allstate's verified mileage program reflects California Code of Regulations Section 2632.5(c)(2)(F), which states that "basing the Second Mandatory Rating Factor on verified actual miles driven, rather than on estimated miles driven, may enable policyholders to reduce their premiums by driving less and create incentives for innovation in automobile insurance rating in California with numerous attendant benefits." Allstate introduced its verified mileage program in filings submitted to the California Department of Insurance in 2011, which were approved and effective in 2012 (California Filing Numbers 11-8148 and 11-8149).

In Allstate's verified mileage program, the mileage band in which an insured vehicle is classified is determined based on the verified annual mileage applicable to that vehicle during previous policy periods. The verified annual mileage is determined as follows:

- At new business, customers provide an initial odometer reading that will be used for rating subsequent policy periods.
- 120 days prior to every anniversary of a policy's first effective date, customers are mailed a form for reporting their current odometer readings. The difference between this odometer reading and the prior odometer reading that is closest to 365 days prior to it is calculated and annualized, under the condition that the odometer readings are no less than 100 days apart and no greater than 790 days apart.
- If annualized mileage cannot be calculated through the method above, then odometer readings are requested from an external vendor. As in the method above, the latest odometer reading is compared to the prior odometer reading that is closest to 365 days prior to it, and the difference is annualized, under the condition that the readings are no less than 100 days apart and no greater than 790 days apart.
- If the prior methods still do not yield an annualized mileage amount, and the customer provided an odometer reading in the most recent odometer request, then the latest odometer reading reported by the insured will be compared to an odometer reading previously obtained from external vendor sources, and the difference in miles driven will be annualized. Similar to the prior methods, the prior odometer reading used will be the one closest to 365 days prior to the latest odometer reading, under the condition that the readings are no less than 100 days apart and no greater than 790 days apart.
- If none of the above methods result in a verified mileage amount, then the annual mileage used for mileage band placement is equal to the expiring annual mileage plus 1,000 miles, with this adjustment applying for a maximum of three consecutive years since the last time the mileage was calculated.

Through Allstate's verified mileage program outlined above, Allstate offers each insured the opportunity to provide their individual actual experience and reflects it in rating. Additionally, when customers receive their renewal offers, they are informed of the mileage band they have been classified in and are invited to contact their Allstate representative if the information is incorrect. Finally, at any time during a policy period, including during the shelter-in-place period, if a customer believes their anticipated annual mileage is different than the verified annual mileage, the customer may contact an Allstate representative to request a prospective rating adjustment for their vehicle. A prospective rating adjustment will be made if the customer provides an anticipated annual mileage that would result in classification in a different rating band and information is provided by the insured that supports the reclassification.

In quantifying the Private Passenger Auto SIPP, Allstate used a mileage reduction impact equivalent to the frequency reduction impact to determine the amount premium is expected to decrease as the reduced mileage from the shelter-in-place is incorporated in prospective rates.

Please refer to Exhibit 2 below for a quantification of the Private Passenger Auto SIPP.

Exhibit 2: Standard Auto California SIPP Quantifications

Metric	Assumption	Combined Ratio
Frequency	March decline of -28%, April decline of -60%, and May decline of -45%	-38%
Severity*	Assume severity will be felt for longer than frequency as parts, salvage, and subrogation will be on a lag; Severity offset quantified as 25% of frequency benefit	9%
Bad Debt	Increase in Special Payment Plan enrollments will result in higher premium write offs in 2020	3%
Verified Mileage	Premium decrease attributed to verified mileage endorsements	7%
Additional Considerations	Impacts from Policy Liberalizations, Accidents for Policies in Cancelled status, Late Reported Claims, free coverage for delivery	4%
Total		-15%

* Initial claims study done to determine the impacts of COVID severity

